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Los Angeles, CA 90071



**OFFICE OF THE  
CITY AUDITOR**

## Independent Auditors' Report

The Honorable Mayor and City Council  
City of Long Beach, California:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (City), as of and for the year ended September 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California, as of September 30, 2002 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund, the Housing Development Fund, the Community Development Grants Fund, the General Capital Projects Fund, and the Redevelopment Capital Projects Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditure in Governmental Fund Financial Statements*, effective October 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2003 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 18, and the schedules of the City's pension plan funding progress on pages 119 and 120 are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Long Beach's basic financial statements. The accompanying information identified in the table of contents as the introductory section, combining and individual nonmajor fund statements and schedules and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The accompanying introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

**KPMG LLP**

KPMG LLP

January 31, 2003



Gary L. Burroughs, CPA  
City Auditor

## Management's Discussion and Analysis

As management of the City of Long Beach (City), we present to readers of the City's basic financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. This is the first year that the City has presented its basic financial statements under Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments, which became effective with fiscal year 2002. Due to significant changes in the reporting model, the City has not restated prior years financial statements for the purpose of providing comparative analysis in the MD&A. Comparative analysis will be provided in future fiscal years.

### Financial Highlights

#### Government-wide:

- ✖ The restricted and unrestricted assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$2.7 billion (*net assets*). Of this amount, \$266 million may be used to meet the government's ongoing General Fund, grant funds, capital project and business-type activity obligations to citizens and creditors. Specific expenditure restrictions apply to the grant funds and to much of the capital project funds.
- ✖ The City's total net assets, including all funds, increased by \$126.3 million. (See page 8).
- ✖ The City's total net long-term liabilities increased by \$314.3 million or 13.8% during the current fiscal year. The City issued \$88 million in refunding bonds to take advantage of favorable interest rates, to extend the terms and lower the annual debt service cost, for a net increase of approximately \$14 million. Other increases were due to lease revenue bonds for the Public Safety Facility \$40.9 million, the Port of Long Beach \$300 million and the Redevelopment Agency \$77.7 million.

#### Fund Basis:

- ✖ As of September 30, 2002, unreserved fund balance for the General Fund was \$43.6 million, or 12.3% of total General Fund expenditures. This balance includes designated General Fund emergency reserves of \$32.9 million, and \$2.5 million set aside as a general purpose reserve account as allowed by the City Charter, combined totaling a \$35.4 million "Emergency Reserve".
- ✖ As of September 30, 2002, the City's other governmental funds reported combined ending fund balances of \$107.2 million of net unreserved deficit fund balance. This deficit fund balance consists of a \$158 million deficit in the Redevelopment Capital Projects Fund and Housing Development Fund for long-term advances due to other funds. The remaining positive balance of \$50.8 million in the special revenue grant and capital projects funds is available for spending at the City's discretion based on fund requirements.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation and sick leave.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues, such as grant revenue (*governmental activities*), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities of the City include those related to legislative and legal, general government, public safety, public health, community and cultural, public works and oil operations. Business-type activities of the City include those related to gas, water and sewer utilities, airport and solid waste management operations, towing, tidelands, Marina and Rainbow Harbor area operations, as well as tideland oil revenue operations, Queen Mary assets (Repair Reserve) and the Port of Long Beach.

The government-wide financial statements include not only the City of Long Beach itself (known as the *primary government*), but also a legally separate bus transportation company for which the City of Long Beach is the only shareholder and, therefore, has authority to affect the company. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. Also included in the governmental activities of the government-wide financial statements are the Housing Authority of the City of Long Beach, the Long Beach Housing Development Company, the Redevelopment Agency of the City of Long Beach, the Long Beach Financing Authority and a portion of the Long Beach Bond Financing Authority.

The business-type activities portion of the government-wide financial statements also include the Southeast Resource Recovery Facility, a portion of the Long Beach Bond Financing Authority, the Long Beach Capital Improvement Corporation and the Parking

Authority of the City of Long Beach. Although legally separate from the City, these component units are blended with the primary government because of their close governance by, or financial relationships with the City.

## **Fund financial statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Housing Development Fund, Community Development Grants Fund, General Capital Projects Fund, and the Redevelopment Agency Capital Projects Fund, each considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements*, located in the additional financial information section of this report.

The City adopts an annual appropriated budget for its funds. A budgetary comparison is provided for each of the City's governmental funds to demonstrate compliance with this budget. The budgetary comparison statements for the major governmental funds are located in the basic financial statements, while the statements for the nonmajor governmental funds are included in the additional financial information section.

**Proprietary funds** are generally used to account for operations that provide services to the general public on a continuing basis or to internal City departments. Proprietary funds provide the same type of information contained in the business-type activities portion of the government-wide financial statements, only in more detail. The City maintains two different types of proprietary funds, enterprise and internal service.

**Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its gas and water utilities, solid waste management operations, tidelands operations, tideland oil revenue operations and the port, all of which are classified as major funds. The City reports enterprise operations for the airport, sewer utility, towing operation and subsidence in the nonmajor enterprise funds which are reported separately in the additional financial information section of this report.

**Internal Service funds** are accounting mechanisms used to accumulate and allocate costs among the City's various functions. The City of Long Beach uses internal service funds to account for: the operation and financing relating to the Civic Center complex; information technology assets and services; lease-purchase of equipment; reprographics equipment and services; operation, maintenance and replacement of the City's fleet of vehicles; financing related to the Fleet facility; to finance and account for the City's risk management and self-insurance programs, including workers compensation and liability; and, to finance and account for compensated absences, employer payroll taxes and health and retirement benefits.

Because these services predominantly benefit governmental rather than business-type functions, they are incorporated into *governmental activities* in the government-wide financial statements. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* in the additional financial information section of this report.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the government and include the Miller Library Fund, and the Mayor's Fund for the Homeless. Fiduciary funds are *not* reflected in the accompanying government-wide financial statements because the resources of those funds are *not* available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary fund financial statements can be found in the basic financial statements section of this report.

### **Notes to the Basic Financial Statements**

The notes to the Basic Financial Statements provide additional information and narrative disclosures that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions.

## Government-Wide Financial Analysis

Again, this is the first year the City has applied GASB 34. Due to significant changes in the financial reporting model, the City has not restated prior years for the purpose of providing comparative analysis in the MD&A. Comparative analysis will be provided in future years.

### Analysis of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$2.7 billion at the close of the most recent fiscal year.

Net Assets  
September 30, 2002  
(In Thousands)

	Governmental Activities	Business-type Activities	Total
<b>Assets:</b>			
Current and Other Assets	\$ 688,608	\$ 1,355,185	\$ 2,043,793
Capital Assets	545,479	3,011,279	3,556,758
Total Assets	<u>1,234,087</u>	<u>4,366,464</u>	<u>5,600,551</u>
<b>Liabilities:</b>			
Current Liabilities	155,221	205,172	360,393
Long-Term Liabilities	624,934	1,899,704	2,524,638
Total Liabilities	<u>780,155</u>	<u>2,104,876</u>	<u>2,885,031</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	197,111	1,399,761	1,596,872
Restricted	313,119	539,903	853,022
Unrestricted (Deficit)	(56,298)	321,924	265,626
Total Net Assets	<u>\$ 453,932</u>	<u>\$ 2,261,588</u>	<u>\$ 2,715,520</u>

By far the largest portion of the City's net assets (58.9%) reflects its net investment of \$1.6 billion in capital assets (for example, land, buildings, infrastructure, machinery, and equipment), net of related debt used to acquire those assets and that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Long Beach's net assets, \$853 million (31.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* in all City funds of \$266 million may be used to meet the government's ongoing obligations to citizens and creditors. Specific expenditure restrictions apply to the grant funds and to much of the capital project funds.

At September 30, 2002, the City is able to report positive balances in all three categories of net assets, for the government as a whole and business-type activities. The governmental activities unrestricted net assets deficit in the amount of \$56.3 million is mainly due to deficits in the Internal Service Funds (Note 15) and the Police and Fire Annuity Obligation Program (See Note 10).

## Analysis of Changes in Net Assets

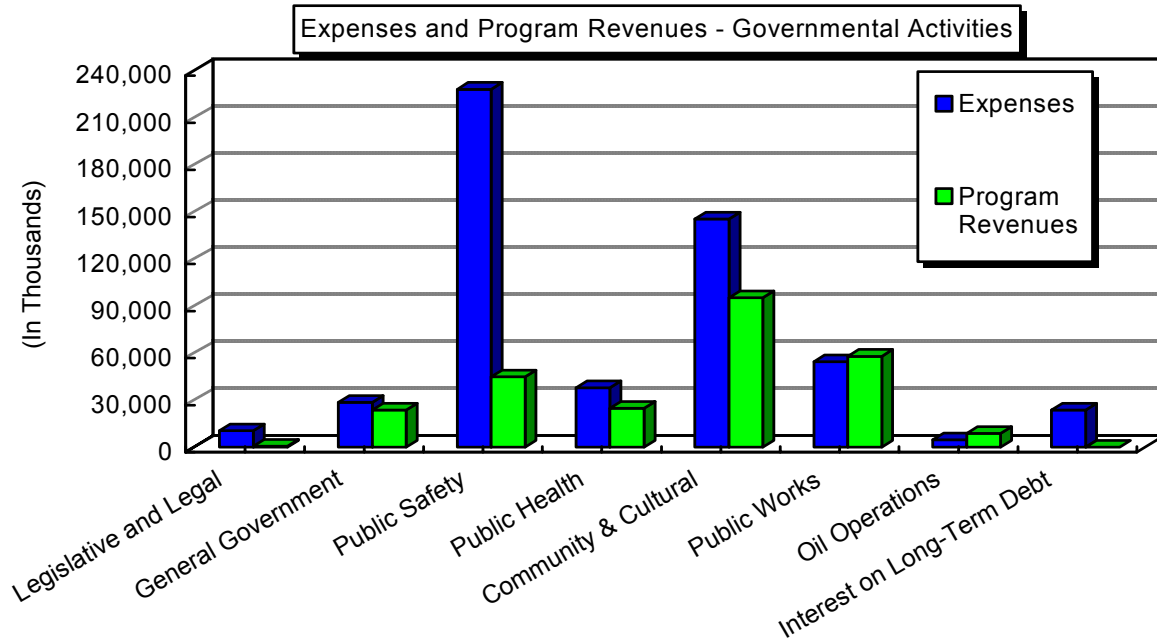
The City's net assets increased \$126.3 million during the current fiscal year. This increase is mainly due to operations in the business-type funds including the Port of Long Beach for \$91 million and \$32 million restricted for a garage project in the Pike area.

### Changes in Net Assets September 30, 2002 ( In Thousands)

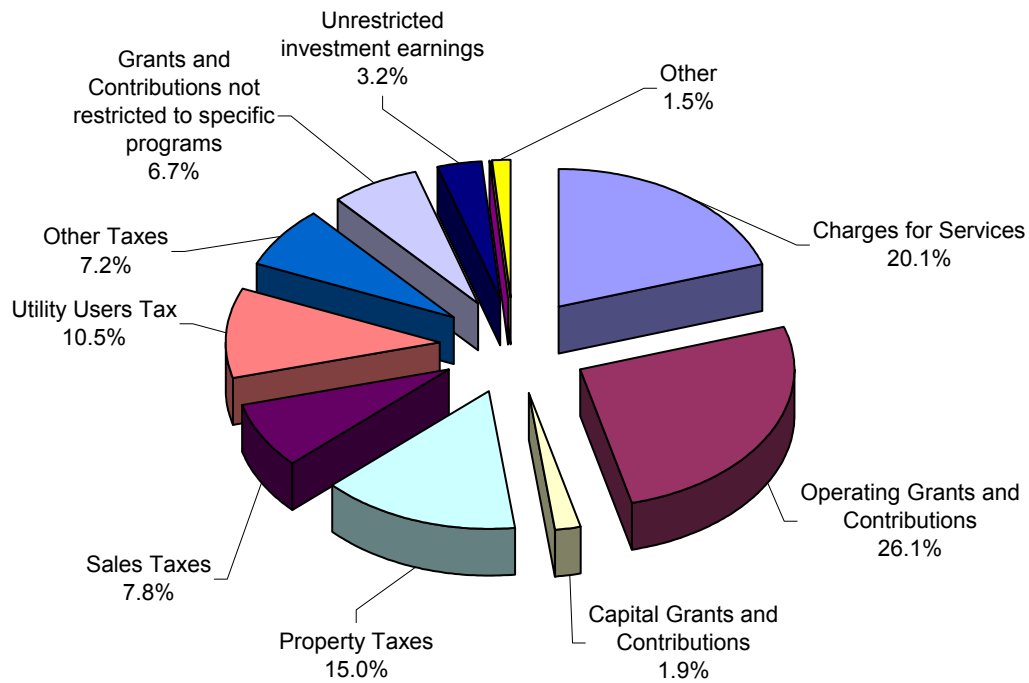
	Governmental Activities	Business-type Activities	Total
<b>Revenues:</b>			
Program Revenues			
Charges for Services	\$ 107,014	\$ 537,290	\$ 644,304
Operating Grants and Contributions	138,254	3,597	141,851
Capital Grants and Contributions	10,191	36,691	46,882
General Revenues			
Taxes:			
Property	79,814	-	79,814
Sales	41,246	-	41,246
Utility Users	55,838	-	55,838
Other	38,262	-	38,262
Grants and Contributions not Restricted to Specific Programs	35,621	-	35,621
Unrestricted Investment Earnings	17,175	32,279	49,454
Loss on Sale of Capital Assets	(42)	(11,393)	(11,435)
Other	7,780	-	7,780
Total Revenues	531,153	598,464	1,129,617
<b>Expenses</b>			
Legislative and Legal	10,471	-	10,471
General Government	28,564	-	28,564
Public Safety	228,214	-	228,214
Public Health	37,872	-	37,872
Community & Cultural	145,376	-	145,376
Public Works	54,352	-	54,352
Oil Operations	4,672	-	4,672
Interest on Long-Term Debt	23,660	-	23,660
Gas	-	55,334	55,334
Water	-	58,814	58,814
Sewer	-	7,858	7,858
Airport	-	18,666	18,666
Solid Waste Management	-	71,202	71,202
Towing	-	5,845	5,845
Tidelands	-	81,261	81,261
Tideland Oil Revenue	-	36,451	36,451
Subsidence	-	3,187	3,187
Harbor	-	131,500	131,500
Total Expenses	533,181	470,118	1,003,299
Increase (Decrease) in Net Assets before Transfers	(2,028)	128,346	126,318
Transfers	5,317	(5,317)	-
Change in Net Assets	3,289	123,029	126,318
Net Assets - October 1	450,643	2,138,559	2,589,202
Net Assets - September 30	\$ 453,932	\$ 2,261,588	\$ 2,715,520



## Governmental Activities



## Revenues By Source - Governmental Activities

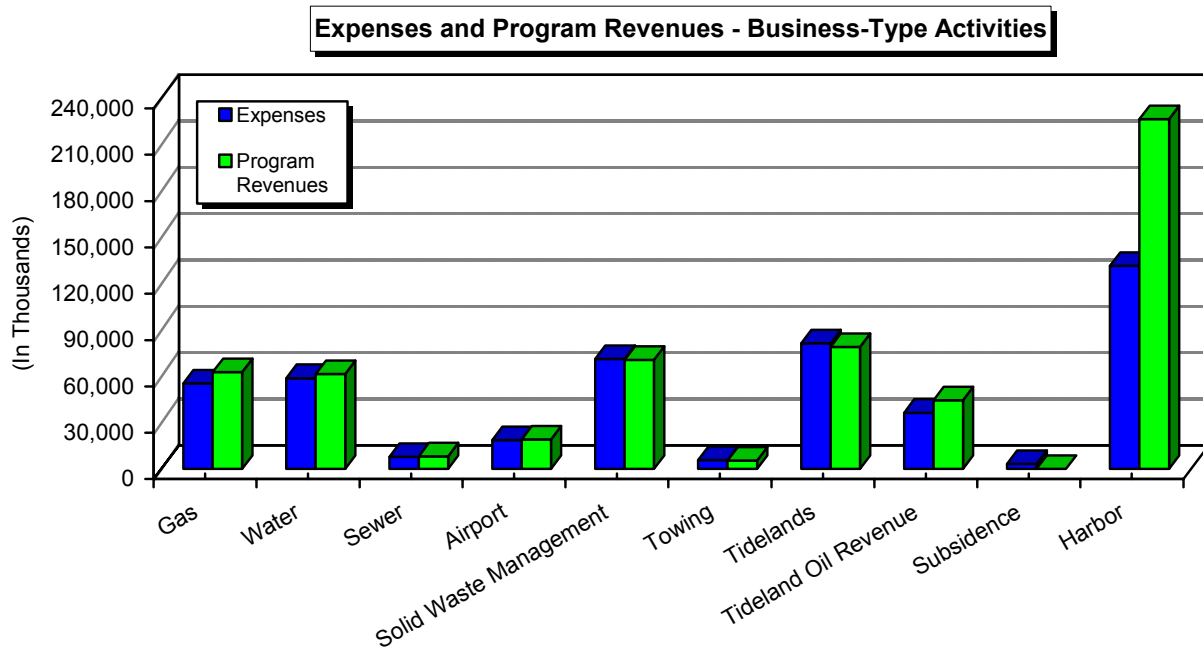


The governmental activities charts on the previous page illustrate expenses and program revenues by function and revenues by source. Public Safety is the largest function at 42.8% of total governmental expense, followed by Community and Cultural at 27.3%, Public Works is 10.2% and Public Health is 7.1%. Property, sales and other taxes are general revenues used to support overall government functions; therefore, these are not shown as program revenues. Operating grants and contributions make up 26.1%, charges for services 20.1% and property taxes 15% of total revenues.

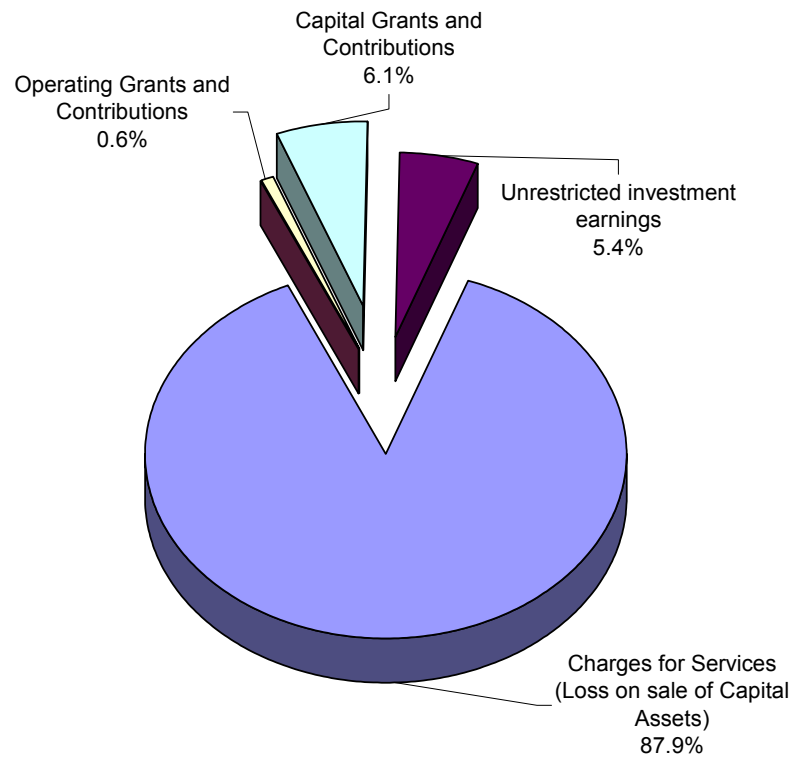
Governmental activities increased the City's net assets by \$3.3 million. Key factors of this change in governmental activities include the following based on the government-wide statement of activities:

- Property tax revenues increased approximately \$7.9 million, or 10.8%. This is mainly attributable to a \$6.9 million increase in Redevelopment Project Area tax increments. General Fund property tax revenues increased approximately \$1 million, or 2.4%, due to increased property assessed valuation prompted by lower interest rates, more home sales and housing demands that exceeded supply.
- Sales tax revenues decreased \$2.2 million, or 5%, due to a continuing decline in the economy and a slump in tourism. The utility users tax decreased \$1.3 million, or 2.3%, as a result of a voter mandated decrease in the utility users tax rate. The rate decreased from 10% at October 1, 2000 down to 8% by September 30, 2002. The decrease will be 1% per year (each October) until the rate is 5%.
- Other taxes decreased \$11.7 million (23.5%) mainly due to a decrease in pipeline and electric company franchise fees, which are based on related revenues, as a result of stabilized energy costs in fiscal year 2002, compared to the sharp utility price increases in fiscal year 2001.
- Governmental activities expenses increased mainly due to rising public safety costs subsequent to the tragedy of September 11<sup>th</sup> for heightened security in the port and general City, along with increased labor costs from negotiated salary increases. See additional detail in the governmental funds financial analysis below.

## Business-Type Activities



## Revenue by Source - Business-type Activities



The business-type charts on the previous page illustrate expenses and program revenues, and revenues by source. The City's port is the largest business-type operation, followed by the tidelands and utilities. The utilities are mainly funded by fees for services, while the Tidelands is funded by fees along with approved transfers from the Harbor and Tideland Oil Revenue Funds.

Business-type activities increased the City's overall net assets by \$123 million, accounting for 97.4% of the total growth in net assets. Key elements of this increase are:

- Increase in Harbor Fund port operations mainly due to the increase in capital assets and construction in progress related to the mega-terminals project, and the increase in long-term debt issued to finance the projects.
- The Tidelands Fund reflects an increase in proceeds from Special Assessment debt for the Pike project parking structure of \$32.1 million. Net maintenance and other operating costs in the tidelands area have increased \$6 million, pending revenue generation from the Pike project area development.
- The other enterprise funds reflected minimal changes in the operations.

### **Government Funds Financial Analysis**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### ***Governmental funds***

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2002, the City's governmental funds reported a combined ending fund balance of \$282.2 million, an increase of \$72.9 million in comparison with the prior year. The increase was mainly due to Redevelopment Agency increase of \$50.4 million restricted for redevelopment projects and \$21.2 million net increase in Capital Projects funds restricted for City projects. Of the total fund balance of \$282.2 million, the net unreserved fund balance is a \$63.6 million deficit. Advances from other funds not payable from current available resources and related to Special Revenue and Capital Projects Funds amounts to a \$158 million deficit. Unrestricted fund balance in the amount of \$94.4 million has been designated for: subsequent years' appropriations for the General Fund, while Special Revenue and General Capital Projects and Redevelopment Capital Projects funds reflect a net fund balance of \$59 million; the remaining fund balance includes \$32.9 million for Emergency Reserve and \$2.5 million for general purpose reserve.

The *reserved* fund balance classification indicates that it is committed for other purposes including: (a) long-term advances to other funds (\$126.1 million) that are not available to spend; (b) reserves for land held for resale (\$42.7 million) that are not available resources to spend; (c) asset seizure funds restricted by law (\$5.4 million); (d) commitments for contracts and purchase orders committed in fiscal year 2002 and prior periods (\$29.7 million); (e) City Charter requirements to maintain \$1.486 million cash balance reserve; (f) future capital projects and special programs (\$94 million); (g) bond required amounts to pay debt service (\$44.4 million); (h) and other restricted purposes including reserve for estimated oil field abandonment costs (\$2 million).

The General Fund is the City's main operating fund. At September 30, 2002, unreserved fund balance of the General Fund was \$43.6 million. The City's "Emergency Reserves", included in the \$43.6 million, includes \$32.9 million designated as emergency reserve by City Council and \$2.5 million of general purpose reserve allowed by the City Charter. With the implementation of GASB 34, long-term advances due from other funds have been recorded as fund balance reserved for noncurrent receivables. The long-term advances due from other funds, (e.g. loan to the Redevelopment Agency) have no specified repayment date; therefore, the reserved fund balance in the amount of \$95.3 million is not available. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. The total unreserved fund balance of \$43.6 million, including emergency reserves of \$35.4 million, represents 12.3% of total General Fund expenditures of \$353.8 million.

The fund balance of the General Fund decreased by \$3.6 million during the current fiscal year. Factors affecting this decrease include the following:

- An increase in public safety costs by \$27.5 million due to staffing required for increased police security Citywide. Fire costs increased due to the increased number of staff and the cost for an additional new recruit training academy. Costs of \$8 million were incurred for equipment to operate the new Emergency Communications and Operations Center (ECOC).
- The increase in Community and Cultural expenditures in the amount of \$6.2 million was mainly due to increased parks programs, including an enhanced gang intervention program, and the community learning center after school program; increased library services; and increased property management services related to development in retail and residential areas of the City.
- Revenue from proceeds from long-term debt increased \$24.0 million, including:
  - \$17 million from lease proceeds, restricted for use to fund the ECOC equipment
  - \$7 million from the public safety facilities improvement bond issue which is restricted for debt service and bond reserve requirements.
- Operating transfers to the General Fund from other funds increased \$6.5 million. See Note 6 on operating transfers.

### ***Enterprise Funds***

Proprietary Fund unrestricted net assets at September 30, 2002 amounted to \$326.6 million, before the Internal Service Fund Activities adjustment. The total growth in net assets was \$123 million. Other factors concerning the finances of these funds are addressed in the discussion of the City's business-type activities.

The Gas, Water and Solid Waste Management Funds reported unrestricted net assets of \$24.4 million, \$5.4 million and \$57.3 million, respectively. The Solid Waste Management Fund reported a deficit investment in Capital Assets net of Related Debt due to the 1995 refunding bond issue which extended the repayment terms for the debt. The Tideland, Tideland Oil Revenue and Harbor Funds reported unrestricted net assets of \$14.6 million, \$22.1 million and \$196.7 million, respectively. Other business-type funds reported unrestricted net assets of \$6.1 million.

### ***Internal Service Funds***

The internal service funds, which are used to finance and account for goods and services provided internally among City departments, had a deficit in unrestricted net assets of \$58 million. This deficit is in the Insurance and Employee Benefit Internal Service Funds, which are not fully funded for long-term liabilities. City management believes the cash position of each fund is sufficient to cover the current costs related to health insurance, worker's compensation, general liability claims and current operating costs.

### ***Fiduciary Funds***

The City maintains fiduciary funds for the assets of the Miller Trust Fund and the Mayor's Fund for the Homeless. These funds are held in trust for the benefit of the Main Library Miller room staffing and books and for homeless program expenditures. Net assets are \$825,000 and \$141,000 for the Miller Trust and Mayor's Fund for the Homeless, respectively.

### **Budgetary Highlights**

The City adopts an annual budget for the government funds which includes the General Fund, Special Revenue Funds and the Capital Projects Funds. The City Council adopts budget adjustments during the year for supplemental appropriations which are generally contingent upon new or additional revenue sources.

#### **General Fund**

General Fund appropriation adjustments were approved for \$6 million for public safety (police and fire) to cover unanticipated security and patrol costs relating to heightened security issues in the City, including the Port and Airport. An increase of \$1.3 million was approved in Community and Cultural for expanded recreation programs, and \$930,000 for property management services relating to development in retail and residential areas.

The General Fund reflects a net positive ending fund balance variance of \$17.4 million, which consists of a negative revenues variance of \$4.3 million, a positive other financing sources variance of \$16.4 million and a positive total expenditure variance of \$5.3 million.

General Fund actual revenues were below budgeted revenue by \$4.3 million due to a decrease in anticipated local sales tax and other taxes including franchise fees and hotel taxes. Other financing sources exceeded budgeted revenues by \$16.4 million due to long-term lease proceeds to fund equipment purchases for the City's new Emergency Communications and Operations Center. General Fund expenditures were \$5.3 million below budget; this is shown in the community and cultural category due to a loan to the Redevelopment Agency's Central Project Area, expected to be made in fiscal year 2002, but not completed until fiscal year 2003.

### Special Revenue Funds

Budget adjustments were approved during the year to reflect changes to grant funding. The budget variance to actual net negative ending budgeted fund balance variance is due to multi-year grants for which costs had not yet been incurred and revenues not received. Grant budgets are established, in their entirety, at the inception of the grant, even if the grant spans multiple fiscal years. The unused portion of each grants' budget is carried over each year and reappropriated by the City Council.

### Capital Projects Fund

During fiscal year 2002, the City Council approved Capital Projects Fund appropriation adjustments in the amount of \$29.9 million mainly for the seismic retrofit of the police headquarters building and a fire station. This increase was funded by public safety facility improvement bond debt proceeds. Estimated revenue from other agencies was decreased to reflect estimated grant revenue which did not materialize. The Redevelopment Agency appropriation increases were approved by the City Council for project area activities funded by bond proceeds.

## **Capital Asset and Debt Administration**

### **Capital Assets**

The City's investment in capital assets for its governmental and business-type activities for the current fiscal year amounts to \$3.6 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings and related systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital projects in progress during the year are as follows:

- The Harbor Fund capital assets increased by \$602 million due to completion of Pier T improvements, including site preparation, new buildings, cranes, and rail improvements.
- Public safety facility capital expenditures included \$17 million on the seismic retrofit of the main police headquarters building and a fire station.

- The Airport Fund incurred costs of \$6 million for improvements needed to accommodate increased traffic due to a major airline start-up.

Additional information on the City's capital assets can be found in Note 7 to the basic financial statements.

Capital Assets, Net of Depreciation  
September 30, 2002  
(In Thousands)

	Governmental Activities	Business-type Activities	Total
Land	\$ 114,382	\$ 853,088	\$ 967,470
Right-a-way	134	207,509	207,643
Construction In Progress	130,998	194,894	325,892
Building	100,163	1,197,392	1,297,555
Improvements other than Buildings	21,240	128,225	149,465
Infrastructures	128,274	418,428	546,702
Machinery and Equipment	12,473	5,103	17,576
Automotive	27,877	6,640	34,517
Other Assets	9,938	-	9,938
Total Net Capital Assets	<u>\$ 545,479</u>	<u>\$ 3,011,279</u>	<u>\$ 3,556,758</u>

## Long-Term Debt

At the end of the current fiscal year, the City had total net long-term obligations outstanding of \$2.6 billion. Of this amount, \$2 billion relates to revenue bonds, certificates of participation, notes payable, capital leases, accrued oil field abandonment costs and other obligations of the City's business enterprises. The balance relates to revenue bonds, tax allocation bonds, notes payable, capital leases, self-insurance and employee benefit obligations for the City's governmental activities.

The City's net debt outstanding increased by \$314.3 million during the current fiscal year (Note 8). A key factor in this increase was a \$300 million revenue bond issuance of the Harbor Fund; a pension obligation refunding bond issue for the Employee Benefits Fund, for a net increase of \$14.2 million; a Redevelopment Agency tax allocation bond issue for a net increase of approximately \$53 million, with a portion used to refund existing Redevelopment Agency debt; and, \$40.9 million for a lease revenue bond issued for the General Fund for seismic retrofit improvements to the Public Safety Building. As of September 30, 2002, the City does not have general obligation debt outstanding.

Additional information on the City of Long Beach's long-term debt can be found in notes 8 through 11 of this report.

## Economic Factors and Next Year's Budgets and Rates

Based on current available data, the 2002 annual unemployment rate for the City of Long Beach was 6.3%. This compares to the State of California's average unemployment rate of 6.7%, and the Los Angeles County rate of 6.8%.



During the current fiscal year, unreserved fund balance in the general fund decreased from \$62.4 million to \$43.6 million. The City has appropriated approximately \$8.2 million of the \$43.6 million for spending in the 2003 fiscal year budget, leaving a balance of \$35.4 million which is designated as emergency reserves per Council action.

The economy, spending increases and a voter approved tax cut were the main issues affecting the development of the fiscal year 2003 budget. The State and local economy have been redefined by emerging national trends and have resulted in limited local revenue growth. This lack of growth, the reduction in utility users tax, additional public safety and other costs, and the implications for local government in the State budget are factors that will affect the City's finances in 2003 and beyond.

Fiscal year 2003 budgeted General Fund revenues, before operating transfers, are expected to show a net decline of \$16 million from the ending fiscal year 2002 budget as a result of:

- A \$1,275,000 increase in estimated property tax revenue, a 2.5% increase due to a limited number of housing units, coupled with continued low interest rates and high demand.
- A \$16,200,000 decrease in estimated other tax revenue consisting of sales taxes, pipeline franchise fees, transient occupancy taxes and utility users taxes. Pipeline franchise fee estimates decreased due to the stabilization of energy prices; sales tax and transient occupancy tax estimates decreased based on an estimated drop in tourism and spending; and the utility users revenues decrease due to an additional one percent reduction in the utility users tax rate.
- A \$4,500,000 decrease in use of money and property resulting from a reduction in estimated interest earnings and the one-time Redevelopment Agency debt repayment in fiscal year 2002.
- A \$3,225,000 increase in estimated charges to other funds/departments for services rendered.

The fiscal year 2003 budgeted General Fund operating budget decreased \$2 million from the final fiscal year 2002 total budget, excluding transfers. This is mainly due to:

- A City Council enacted 3.5% reduction in all departments' General Fund budgets, except for Police and Fire;
- A 3.0% reduction in Police and Fire budgets, excluding the sworn personnel budget;
- A \$450,000 reduction in funding for the Public Corporation for the Arts (PCA); and,
- An increase of \$350,000 to fund the City Municipal Band directly from the General Fund, rather than through the PCA.

The fiscal year 2003 budget includes a significant amount of one-time revenues and transfers. Given concerns for the near-term financial outlook, the City enacted a hiring

freeze, along with city-wide spending reductions. The City, along with many other State and local governments, faces difficult near-term financial conditions. As part of the fiscal year 2003 budget adoption process, the City Council directed City Staff to develop a Three-Year Financial Strategic Plan that focuses on the City's financial stability and to provide guidance through these trying times.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Long Beach's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Department of Financial Management, 333 West Ocean Boulevard, 6<sup>th</sup> Floor, Long Beach, California 90802.